

PERSONNEL POLICY AND FINANCE COMMITTEE – 11 JUNE 2026

AGENDA ITEM 5.3.3 – FINANCE - INTERNAL AUDITOR TERMS OF REFERENCE

1. RESTROSPECTIVE TERMS OF REFERENCE – YEAR ENDED 31 MARCH 2026

The current independent internal auditor has been the Council's internal auditor for the last three fiscal years. The enclosed Internal Audit Report letter notifies the Council that they will be retiring and therefore unable to conduct the Council's audit for fiscal year to end 2027.

The basis on which they have audited the Council's accounts to date was agreed on the strength of their qualification (ACCA) and experience as an auditor for local authorities generally, being a former staff member of the County Council. Their track record including auditing the accounts of other local town councils and they came highly recommended by them.

The current auditor has also been supportive throughout the changes of administration in 2023 and enabled the incoming Clerk(s) and Responsible Finance Officer to better understand Council budgeting and setting of reserves, which has brought about much improvement to processes and procedures.

Part 2 of this paper proposes more comprehensive terms of reference which it is proposed are used going forward and in appointing a new internal auditor for fiscal year to end 31 March 2027.

Meanwhile the following retrospective terms of reference have been drafted to recognise that the internal auditor was appointed on a different basis, completed the Internal Audit Report section of the AGAR, and has undertaken the work that enabled them to sign the annual return.

Audit Wales' primary concern is usually whether the Council can demonstrate that:

- An independent internal auditor was appointed;
- The auditor had access to the records necessary to complete the work;
- The auditor completed the Internal Audit Report section of the AGAR;
- The Council considered the report;
- The Council reviewed the effectiveness of internal audit.

Recommendation:

For the 2025/26 audit, the Clerk recommends adopting a minimum retrospective Terms of Reference that accurately reflects what was undertaken rather than trying to expand it beyond the actual work completed.

Accordingly, the terms of reference below would be considered appropriate.

Internal Audit Terms of Reference

Applicable to the Internal Audit of the Accounts for the Year Ended 31 March 2026

Purpose

The purpose of the Internal Audit is to provide an independent review of the Council's financial records and internal control arrangements sufficient to enable completion of the Internal Audit section of the Annual Governance and Accountability Return (AGAR).

Independence

The Internal Auditor shall be independent of the Council's day-to-day financial administration and decision-making processes.

Scope of Audit

The Internal Auditor shall undertake such testing as considered necessary to provide an opinion on the matters contained within the Internal Audit Report of the Annual Governance and Accountability Return.

The audit may include review of:

- Accounting records;
- Bank reconciliations;
- Budget monitoring arrangements;
- Income and expenditure controls;
- Payment authorisation procedures;
- Asset register;
- Insurance arrangements;
- Risk management arrangements;
- Compliance with Financial Regulations and Standing Orders;
- Annual Governance and Accountability Return supporting information.

The Internal Auditor may make recommendations regarding financial management, governance, risk management or internal controls where opportunities for improvement are identified.

Access to Information

The Internal Auditor shall have access to all records, documents and explanations considered necessary to undertake the audit.

Reporting

The Internal Auditor shall:

- Complete the Internal Audit Report section of the AGAR;
- Provide a written report summarising observations and recommendations;

- Report significant concerns to the Council as appropriate.

Council Responsibilities

The Council shall:

- Consider the Internal Audit Report;
- Record any actions arising from recommendations;
- Review the effectiveness of its internal audit arrangements annually.

Review

These Terms of Reference apply solely to the audit of the financial year ended 31 March 2026.

Proposed Next Steps

Clerk recommends that Council:

1. Notes and thanks the retiring auditor.
2. Approves the retrospective Terms of Reference for the 2025/26 audit (such as the above).
3. Carries out and records its annual review of internal audit effectiveness.
4. Approves the more comprehensive Terms of Reference we drafted earlier for implementation from 1 April 2026 (see Part 2).
5. Uses those Terms of Reference as part of the procurement and appointment process for the next internal auditor.

Review of Internal Audit Effectiveness

That the Council record the following in the minutes:

"Council considered the Internal Auditor's report and reviewed the effectiveness of the Internal Audit arrangements for 2025/26. Council noted that the Internal Auditor was independent of the Council's financial administration, had appropriate access to records and completed the Internal Audit Report required for the Annual Governance and Accountability Return. Council further resolved that enhanced Terms of Reference and a risk-based internal audit programme be adopted for future years to strengthen assurance arrangements."

The above minute demonstrates to Audit Wales that the Council has reflected on its current arrangements and is taking proactive steps to strengthen them for future years, which is often viewed positively during audit review.

2. PROPOSED DRAFT TERMS OF REFERENCE – YEAR TO END 31 MARCH 2027

Based on the requirements and good practice set out in the *Governance and Accountability for Local Councils in Wales – A Practitioner's Guide (2019)*, particularly the expectation that councils maintain an independent and effective internal audit function with clear terms of reference covering scope, independence, competence, relationships, planning and reporting, the following model Terms of Reference would be suitable for a Town or Community Council.

Proposed Draft Internal Audit Terms of Reference – financial year to end 31 March 2027

1. Purpose

The purpose of Internal Audit is to provide the Council with independent, objective assurance that its systems of governance, risk management and internal control are operating effectively and efficiently.

The Internal Auditor shall review, appraise and report upon the adequacy of:

- Financial management arrangements;
- Internal control systems;
- Risk management processes;
- Governance arrangements;
- Compliance with legislation, regulations, policies and procedures;
- Measures to prevent and detect fraud and corruption; and
- Arrangements for securing economy, efficiency and effectiveness in the use of resources.

The Internal Audit function supports the Council in meeting its responsibilities under the Accounts and Audit (Wales) Regulations and the *Governance and Accountability for Local Councils in Wales – A Practitioner's Guide*.

2. Authority

The Internal Auditor is authorised by the Council to:

- Have access at all reasonable times to all Council records, documents, accounts, financial systems and correspondence considered necessary for the audit;
- Require such explanations and information from Members, officers and employees as may be necessary to carry out audit work;
- Examine any assets, stores or property owned or managed by the Council;
- Attend meetings where matters relevant to audit responsibilities are being discussed.

The Internal Auditor shall observe confidentiality requirements and comply with data protection legislation.

3. Independence

The Internal Auditor shall remain independent of the Council's day-to-day financial administration and decision-making processes.

The Internal Auditor shall:

- Have no involvement in the operation of the Council's financial systems;
- Not undertake bookkeeping or accounting functions on behalf of the Council;
- Declare any actual or potential conflicts of interest;
- Maintain objectivity in all audit work and reporting.

4. Scope of Audit

The Internal Audit programme shall be risk-based and include, where appropriate:

Governance

- Standing Orders and Financial Regulations;
- Member conduct and decision-making processes;
- Publication and transparency requirements.

Financial Management

- Budget setting and monitoring;
- Accounting records;
- Banking arrangements;
- Income and expenditure controls;
- Payroll;
- VAT;
- Asset management.

Risk Management

- Risk register maintenance;
- Insurance arrangements;
- Business continuity arrangements.

Internal Control

- Authorisation procedures;
- Segregation of duties;
- Procurement and contract management;
- Security of records and assets.

Compliance

- Statutory duties;
- Council policies and procedures;

- Grant conditions and funding requirements.

5. Audit Planning

The Internal Auditor shall prepare an annual audit programme based on an assessment of the Council's activities and associated risks.

The programme shall provide sufficient coverage to enable completion of the Internal Audit Report required to support the Annual Governance and Accountability Return (AGAR).

Additional audit work may be commissioned by the Council where significant risks or concerns arise.

6. Reporting

The Internal Auditor shall provide written reports to the Council following completion of audit work.

Reports shall include:

- Areas reviewed;
- Audit findings;
- Assessment of controls;
- Recommendations for improvement;
- Management responses (where applicable);
- An overall assurance opinion.

An annual Internal Audit Report shall be presented to the Council prior to approval of the Annual Governance Statement and Accounting Statements.

7. Council Responsibilities

The Council shall:

- Consider all Internal Audit reports at a meeting of the Council;
- Record actions arising from audit recommendations;
- Monitor progress in implementing agreed actions;
- Review the effectiveness of Internal Audit annually.

8. Review of Internal Audit Effectiveness

The Council shall undertake an annual review of the effectiveness of its Internal Audit arrangements.

The review shall consider:

- Scope of Internal Audit;
- Independence of the auditor;
- Competence and experience;

- Relationships between the Council, Clerk and Internal Auditor;
- Audit planning and reporting arrangements;
- Overall effectiveness and value added by the audit process.

The findings of the review shall be reported within the Annual Governance Statement.

9. Appointment and Tenure

The Internal Auditor shall be appointed by resolution of the Council.

The appointment shall be reviewed annually as part of the Council's review of internal control arrangements.

10. Review of these Terms of Reference

These Terms of Reference shall be reviewed by the Council at least annually and updated as necessary to reflect legislative or operational changes.

Recommendation

That the Committee recommends to Full Council that each set of enclosed set of terms of reference are approved by Council by the end of June 2025, subject to any amendments it considers appropriate.

Vanessa Lewis Camacho
June 2026